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*City Auditor*

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THE CITY OF SPRINGFIELD, MASSACHUSETTS

Federal Audit Clearinghouse  
1201 E. 10<sup>th</sup> Street  
Jeffersonville, IN 47132

Re: CORRECTIVE ACTION PLAN

August 17, 2007

Oversight Agency for Audit: U.S. Department of Housing & Urban Development

The City of Springfield, Massachusetts, respectfully submits the following corrective action plan for the fiscal year ended June 30, 2005.

Name and address of independent public accounting firm:

Powers & Sullivan  
100 Quannapowitt Parkway, Suite 101  
Wakefield, MA 01880

Audit period: Fiscal Year Ended June 30, 2005

The findings from the June 30, 2005 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**CURRENT YEAR FINDING RELATING TO NONCOMPLIANCE**

**05-1 Improper Treatment of Retiree Health Insurance Premiums**

*Condition:* The City makes elective payments of health insurance premiums on behalf of its retired employees. During a recent change to an outside payroll service provider it was determined that for retirees who retired between January 1, 1993 and January 1, 2006, the City did not report the elective payments as taxable income amounts in box 2a of Form 1099-R. In addition, the City did not withhold federal income taxes as required and the elective payments may not have been treated as taxable income by retirees for calendar years prior to 2006.

*Current status:* On March 15, 2007, the City acting through its Finance Control Board, reached a settlement agreement with the Commissioner of the Internal Revenue Service. For the sum of \$250,000, the Internal Revenue Service agreed to resolve all matters relating to the improper treatment of the elective payments for all years affected by this oversight. For calendar year 2006 and for all years thereafter, the City has also agreed to report elective payments as income of its retirees as provided by law.

*Action Taken:* The settlement reached with the Internal Revenue Service has concluded this matter for the year 2005 and prior and the City has implemented procedures to correct this situation going forward.

## **UPDATE OF PREVIOUS YEAR'S MATERIAL WEAKNESS AND NONCOMPLIANCE**

### **04-1 Reconcile Receivable Accounts to Collector Records (Material Weakness)**

*Condition:* Previous auditor's found several significant receivable accounts which were not reconciled to independently maintained lists of balances due. Several correcting audit adjustments were required to bring the variance to a tolerable level. In addition, previous auditor's found a general lack of reconciliation procedures over key receivable accounts.

Specifically, previous auditor's found the following weaknesses:

- The Collector's Office does not maintain an accurate control sheet for each receivable. A control sheet is used to summarize detail transactions posted to taxpayer accounts. The control sheet should be reconciled periodically to a detailed balance due report. Maintaining a control sheet for each receivable would also simplify the reconciliation to the general ledger accounts.
- The Collector's Office did not have updated accessible detail balances for motor vehicle excise receivables for levy years 1978 and prior. The Collector's information on those receivables is maintained in antiquated ledgers and kept in storage. The general ledger balances for those older year excise receivables was approximately \$5.3 million. Since no current comprehensive list of those receivables exists; their collectibility is questionable.
- The Treasurer's Office does not maintain a list of outstanding balances due for tax liens or foreclosures. Amounts due the City are kept by property (owner and parcel number); however no summarized list of these amounts has ever been created. As a result, there is no practical means by which the general ledger balances can be reconciled to detailed balances due.

*Previous Auditors' Recommendation:* We recommend the City implement procedures to reconcile receivable balances on a timely basis and that any required adjustments be posted prior to the end of the next month end period. Routine reconciliations of key accounts are essential to maintain adequate control over and assure the accuracy and completeness of the City's financial information.

*City's Previous Response:* The City has made significant progress in addressing the weaknesses cited.

Following is a brief explanation:

- The City Collector and Auditor are working together to develop a regular schedule to reconcile control ledgers to the detail unpaid balance reports.
- In fiscal year 2005, the City outsourced to private firms the collection of delinquent property taxes, motor vehicle excise, and parking tickets. The effort resulted in the collection of approximately \$10 million in delinquent receivables.
- The Treasurer now maintains a computerized list of tax liens and foreclosures. Moreover, the private firms referred to above have resulted in a substantial cleanup of delinquent records. The City will continue this effort.

*Current Status:* The most significant recommendations were adopted during fiscal year 2005. Matters relating to tax liens and foreclosures are still considered reportable conditions as of June 30, 2005.

*Action Taken:* The City has been able to document and reconcile its' outstanding balances for tax liens and foreclosures.

#### 04-2 Write-Off of Penalties and Interest (Noncompliance)

*Condition:* In accordance with Chapter 59, section 57 of the Massachusetts statutes, the City imposes interest and penalties on delinquent property taxes. The statutes provide a process to abate taxes under certain conditions. Interest and penalties are adjusted where abatement has been granted. The statutes do not provide for a process to waive or adjust interest and penalties other than where the tax has been abated. Previous auditor's noted that the City of Springfield has waived penalty and interest amounts through verbal and written taxpayer agreements in violation of statutes.

*Previous Auditors' Recommendations:* Previous auditor's recommended that previously implemented procedures for waiving penalty and interest amounts through verbal and written taxpayer agreements be terminated and for the City to follow Chapter 59, section 57 of the Massachusetts statutes.

*City's Response:* The City is now in compliance with the Massachusetts statutes. In addition, the City has reviewed the agreements questioned and instituted an aggressive collection effort to correct any violations.

*Current Status:* The recommendations were adopted during fiscal year 2005. No similar findings were noted in the 2005 audit.

*Action Taken:* As indicated above procedures have been implemented to correct this situation and these practices are no longer allowed.

## FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

### UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grants/Entitlement Grants  
CFDA No: 14.218

- 05-2: *Condition and Criteria:* CDBG funding can only be used for “Special Economic Development Projects” that meet the criteria in CFR 570.203. Grantees must have data to support that assistance provided to carry out special economic development projects is appropriate by meeting the public benefits standard for job creation. The City has been unable to document that the projects met the public benefit standard of job creation as required.

*Cause:* Lack of procedures in place to ensure that these documentation requirements are met.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Questioned Costs: \$450,949

*Auditors' Recommendation:* We recommend that the City implement procedures to comply with the documentation requirements outlined by the HUD program.

*Action Taken:* The City has been working closely with HUD to implement procedures in order to comply with these requirements.

Community Development Block Grants/Entitlement Grants  
CFDA No: 14.218

- 05-3: *Condition and Criteria:* One of the City's CDBG subrecipients has not completed its A-133 Single Audit as required for the fiscal years ended 2003 to 2005.

*Cause:* Lack of procedures in place to monitor subrecipients audit requirements.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to monitor the on-going audit requirements of its subrecipients.

*Action Taken:* The City has re-communicated the need for a Single Audit to the subrecipient involved and is expecting this process to be completed during the summer of 2007.

**UNITED STATES DEPARTMENT OF AGRICULTURE  
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

School Breakfast Program  
National School Lunch program  
Summer Food service program for Children  
Home Investment Partnership Program  
CFDA No: 10.553  
CFDA No: 10.555  
CFDA No: 10.559  
CFDA No: 14.239

- 05-4: *Condition and Criteria:* Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. We inquired about the Child Nutrition Cluster and Home Program's compliance with this requirement and were informed that there are no procedures in place to monitor compliance with this requirement.

*Cause:* Lack of procurement procedures in place to ensure that these requirements are met.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Agriculture and the Department of Housing and Urban Development (HUD).

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to comply with the Federal Procurement and Suspension and Debarment requirements contained in OMB A-133.

*Action Taken:* The City's contracts contain language requiring vendors to be in compliance with these requirements and the City will implement procedures to ensure that this information is verified.

**UNITED STATES DEPARTMENT OF AGRICULTURE**

School Breakfast Program  
National School Lunch program  
CFDA No: 10.553  
CFDA No: 10.555

- 05-5: *Condition and Criteria:* The City is required to complete a process each year by selecting certain applications for free and reduced meals to verify the accuracy of the applications made. Guidance for this process is provided by the federal publication "Eligibility Guidance for School Meals Manual". The Manual requires that applications for verification must be taken from "error prone applications". The City was unable to substantiate that its selection criteria met the requirements as outlined in the Manual.

*Cause:* Lack of procedures in place to properly document the verification requirements of the School Breakfast and Lunch Programs.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Agriculture.

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to document its compliance with the verification requirements of the School Breakfast and Lunch Programs.

*Action Taken:* The City agrees with the auditor's recommendation and is in the process of implementing procedures in this area to document the verifications necessary for compliance with this requirement.

School Breakfast Program  
CFDA No: 10.553

- 05-6: *Condition and Criteria:* The City's School District meets the federal and state requirements that allow the School to be considered a "Severe Need School District" which ultimately can allow a higher rate of reimbursement for these programs from the state. The Massachusetts Department of Education (DOE) allows for an additional state reimbursement if the actual average cost of breakfast served each month is in excess of the federal rate. This information is reported to the state monthly on Form FP-6B, "Report of Average Cost of Breakfasts". The School District was unable to provide documentation that supported the actual costs reported to the DOE and therefore the \$143,000 of state funds received are not supported.

*Cause:* Lack of procedures in place to properly document the actual costs used to populate Form FP-6B that was filed monthly with the DOE.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Agriculture.

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to document its compliance with the reporting requirements of the School Breakfast Program.

*Action Taken:* The City agrees with the auditor's recommendation and is in the process of implementing procedures in this area to document the actual program costs necessary for compliance with this requirement.

School Breakfast Program  
National School Lunch program  
CFDA No: 10.553  
CFDA No: 10.555

- 05-7: *Condition and Criteria:* The City's School District is required under CFR Section 250.14(e) to conduct physical inventory counts of its school and warehouse inventories and to reconcile these counts at least annually to its perpetual inventory records. Although the School District informed us that they periodically count and reconcile their inventory; they were unable to provide any perpetual inventory records or any documentation of physical counts or any valuation of their inventories on hand.

*Cause:* Lack of procedures in place to properly document the physical inventory requirements of the School Breakfast and Lunch Programs.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Agriculture.

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to document its compliance with the physical inventory requirements of the School Breakfast and Lunch Programs.

*Action Taken:* The City agrees with the auditor's recommendation and is in the process of implementing procedures in this area to document the physical inventory verifications and reconciliations necessary for compliance with this requirement.

## **UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Home Investment Partnership Program  
CFDA No: 14.239

- 05-8: *Condition and Criteria:* Under the Home Investment Partnership Program the City is required to conduct long term monitoring of property standards, tenant income levels, and rental limitations as established by HUD. Our inquiries and review of the City's documentation for these requirements indicated that this monitoring is not being conducted on a regularly scheduled basis.

*Cause:* Lack of personnel in place to conduct the required monitoring.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to comply with the HUD long term monitoring requirements.

*Action Taken:* The City agrees with the auditor's recommendations and has appointed personnel to be responsible for the on-going monitoring required under these programs and will comply with these requirements going forward.

Community Development Block Grants/Entitlement Grants  
Home Investment Partnership Program  
CFDA No: 14.218  
CFDA No: 14.239

- 05-9: *Condition and Criteria:* While reviewing loan documentation files for various CDBG and Home programs we noted numerous instances where files were incomplete, inconsistently organized, and lacking certain required signatures and other documentation required by the programs.

*Cause:* Lack of procedures in place to ensure that these documentation requirements are met.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to comply with the documentation requirements outlined by the Federal programs and the City's own internal policies and procedures.

*Action Taken:* The City agrees with the auditor's recommendation and is taking action to improve its' documentation procedures relating to these matters.

## **UNITED STATES DEPARTMENT OF LABOR**

### **WIA Cluster**

WIA Adult Program, WIA Youth Program, WIA Dislocated Workers  
CFDA No.'s 17.258, 17.259, 17.260

05-10: *Condition and Criteria:* Lack of procedures in place to reconcile expenditure amounts by grant between the HCETC Office and the City Auditors Office.

*Cause:* Personnel changes and lack of designated policies and procedures to the process of reconciling.

*Effect:* Unable to fully ascertain the integrity of the flow of information between the two Departments.

Questioned Costs: None

*Auditors' Recommendation:* We recommend the City implement procedures to reconcile amounts on a monthly basis prior to submitting cash requests.

*Action Taken:* The City agrees with the auditor's recommendation and will begin a process of monthly reconciliations.

## **UNITED STATES DEPARTMENT OF EDUCATION**

Title I Grants to Local Educational Agencies  
CFDA No: 84.010

05-11: *Condition and Criteria:* We were not provided with adequate supporting documentation for \$100,598 of workers' compensation costs charged to the Title I grant. Allowable cost principles contained in OMB A-133 require that all expenditures be adequately documented.

*Cause:* Lack of procedures in place to ensure that adequate documentation is maintained to substantiate all costs charged to the grant.

*Effect:* The District is not in compliance with the grant agreements entered into with the Department of Education (the DOE).

Questioned Costs: None



*Auditors' Recommendation:* We recommend that the District implement procedures to comply with the allowable costs principals contained in OMB A-133.

*Action Taken:* The City agrees with the auditor's recommendation and will implement the appropriate procedures to improve internal documentation requirements.

Title I Grants to Local Educational Agencies  
CFDA No: 84.010

05-12: *Condition and Criteria:* Several line-items on the Final Report had deficits in excess of the \$10,000 DOE limit that requires an amendment to be filed. As of the date of our audit report, no amendment had been filed to correct the deficit balances.

*Cause:* The grant administrator was unaware of the \$10,000 threshold that requires and amendment to be filed for deficits in excess of \$10,000.

*Effect:* The City is not in compliance with the grant agreements entered into with the Department of Education.

Questioned Costs: None

*Auditors' Recommendation:* We recommend that the City implement procedures to comply with the Department of Education reporting requirements.

*Action Taken:* The City agrees with the auditor's recommendation and will comply with the reporting requirements going forward.

If the Department of Housing & Urban Development, as the City's Oversight Agency for Audit, has questions regarding this plan, please call Mr. Mark J. Ianello at (413) 787-6205.

Sincerely yours,



Mark J. Ianello  
City Auditor